

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>St. Clair County Community Mental Health Auth</b>	County <b>St. Clair County</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>2/8/05</b>	Date Accountant Report Submitted to State: <b>3/30/05</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- |   |   |
|---|---|
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> Yes <input checked="" type="checkbox"/> No | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).		✓	

Certified Public Accountant (Firm Name) <b>Stewart, Beauvais &amp; Whipple</b>			
Street Address <b>1979 Holland Ave.</b>	City <b>Port Huron</b>	State <b>Mi</b>	ZIP <b>48060</b>
Accountant Signature 		Date <b>3-30-05</b>	

**ST. CLAIR COUNTY COMMUNITY MENTAL  
HEALTH AUTHORITY  
Port Huron, Michigan**

**ANNUAL FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED  
SEPTEMBER 30, 2004**

Stewart,  
Beauvais  
& Whipple P.C.

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CERTIFIED PUBLIC ACCOUNTANTS



**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

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## INDEPENDENT AUDITOR'S REPORT

To the St. Clair County Community  
Mental Health Authority  
Port Huron, Michigan

We have audited the accompanying basic financial statements of the St. Clair County Community Mental Health Authority, a component unit of St. Clair County, Michigan, as of and for the year ended September 30, 2004, as listed in the table of contents. These financial statements are the responsibility of the St. Clair County Community Mental Health Authority's management. Our responsibility is to express opinions on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the St. Clair County Community Mental Health Authority as of September 30, 2004, and the results of its operations for the fiscal year then ended, in conformity with accounting principles generally accepted in the United States.

In accordance with *Government Auditing Standards*, we have also issued our report dated February 8, 2005 on our consideration of the St. Clair County Community Mental Health Authority's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide opinions on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be considered in assessing the results of our audit.

The management's discussion and analysis on pages 3 through 8 is not a required part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the basic financial statements of the St. Clair County Community Mental Health Authority's basic financial statements. The combining schedules are presented for purposes of additional analysis and are not a required part of the basic financial statements. The schedules have been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, are fairly stated in all material respects in relation to the basic financial statements taken as a whole.

*Stewart, Beaveris & Whipple*

Certified Public Accountants

February 8, 2005

## **ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

### **MANAGEMENT'S DISCUSSION AND ANALYSIS**

This Management's Discussion and Analysis has been written by the management team of the St. Clair County Community Mental Health Authority. We offer readers of these financial statements this narrative and analysis of the financial activities of the Authority for the fiscal year ended September 30, 2004. This discussion and analysis is designed to assist the reader in focusing on the significant financial issues and activities and to identify any significant changes in financial position. We encourage readers to consider the information presented here in conjunction with the financial statements as a whole.

#### **OVERVIEW OF THE FINANCIAL STATEMENTS**

This discussion and analysis is intended to provide a basis of understanding of the St. Clair County Community Mental Health Authority's basic statements. These statements comprise three components: (1) governmental-wide financial statements, (2) fund (modified accrual) financial statements, and (3) notes to the financial statements. Supplementary information is also provided for additional information purposes.

##### **Government-Wide Financial Statements**

The government-wide financial statements are designed to provide readers with a broad overview of the St. Clair County Community Mental Health Authority's finances, in a manner similar to a private-sector business.

The *statement of net assets* presents information on all of the St. Clair County Community Mental Health Authority's assets and liabilities, with the differences between the two reported as net assets. Over time, increases or decreases in net assets may serve as a useful indicator of whether the financial position of the Authority is improving or deteriorating.

The statement of activities presents information showing how the government's net assets changed during the most recent fiscal year. All changes in net assets are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., unused vacation and sick).

##### **Fund (Modified Accrual) Financial Statements**

Unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds (modified accrual) statements with similar information presented for government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near term financing decisions.

The St. Clair County Community Mental Health Authority adopts an annual appropriated budget for the operating fund. A budgetary comparison statement has been provided to demonstrate compliance with this budget.

## Notes to the Financial Statements

The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund (modified accrual) financial statements.

## FINANCIAL HIGHLIGHTS

### Government-Wide Financial Analysis

As noted earlier, net assets may serve over time as a useful indicator of a government's financial position. As shown on the table below, the Authority's assets exceeded liabilities by \$8,819,633 at the end of the fiscal year.

The net assets are separated into three major components, investment in capital assets which amounted to \$1,145,240 or 13.0% of net assets, restricted net assets of \$4,358,609 or 49.4% and finally unrestricted net assets of \$3,315,784 or 37.1%. The restricted net assets are dollars set-aside from state and local funding, which are subject to external restrictions on how they may be used, to provide protection from expected and unexpected cost fluctuations related to its managed care risk contract with the Michigan Department of Community Health.

When comparing this fiscal year to the previous year, net assets have increased by \$202,141, which is .3% of annual revenues.

<u>Statement of Net Assets</u>	<u>FY 2003</u>	<u>FY 2004</u>
Current and other unrestricted assets	\$11,714,010	\$ 9,474,626
Restricted assets	5,413,557	5,599,082
Capital Assets	<u>1,013,070</u>	<u>1,145,240</u>
Total Assets	<u>18,140,637</u>	<u>16,218,948</u>
Long-term liabilities outstanding	1,124,156	1,240,473
Other liabilities	<u>8,398,989</u>	<u>6,158,842</u>
Total Liabilities	<u>9,523,145</u>	<u>7,399,315</u>

Net Assets:	<u>FY2004</u>	<u>FY2003</u>
Invested in capital assets, net of related debt	1,013,070	1,145,240
Restricted	4,289,401	4,358,609
Unrestricted	<u>3,315,021</u>	<u>3,315,784</u>
Total net assets	<u>\$8,617,492</u>	<u>\$ 8,819,633</u>

#### Statement of Activities

Revenues		
Intergovernmental	\$57,655,959	\$59,976,634
Charges for services	429,147	355,687
Interest and rents	217,693	188,821
Other revenues	<u>188,822</u>	<u>117,893</u>
Total Revenues	<u>58,491,621</u>	<u>60,639,035</u>
Expenses		
Developmental disability programs	4,663,478	4,374,632
Mental Illness Programs	6,229,533	7,866,316
Substance Abuse	421,785	412,361
Administration and Support Services	4,118,412	4,375,978
PIHP – Administrative/Access	2,298,325	3,695,689
Other Alliance Boards	21,844,739	22,722,452
Grants	637,427	487,380
Institutional and State Residential Care	965,614	849,420
Contract Agencies	5,358,933	6,453,315
Residential Homes	10,349,208	9,847,523
Depreciation/loss on disposal	<u>301,907</u>	<u>307,500</u>
Total Expenses	<u>57,189,361</u>	<u>61,392,566</u>
Increase (decrease) in net assets before other financing sources	1,302,260	(753,531)
County Appropriation	<u>955,672</u>	<u>955,672</u>
Increase in net assets	2,257,932	202,141
Net assets at beginning of year	<u>6,359,560</u>	<u>8,617,492</u>
Net assets at end of year	<u>\$8,617,492</u>	<u>\$8,819,633</u>

#### **Financial Analysis of Fund (Modified Accrual) Statements**

As previously noted, the focus of the fund (modified accrual) financial statements is to provide information on the near-term inflows, outflows, and balances of spendable resources.



Such information is useful in assessing the Authority's financing requirements. In particular, unreserved fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the Authority reported an ending fund balance of \$8,914,866 an increase of \$186,288 from the prior year. Approximately 34% or \$3,048,568 of the fund balance constitutes unreserved fund balance, which is available for spending at the Authority's discretion; however of this amount \$1,800,000 is currently designated for contingencies and managed care adjustments. The remainder of fund balance of \$5,866,298 or 66% is reserved to indicate that it is not available for new spending because 1) it is reserved to liquidate vacation and sick pay earned in prior periods and reimbursed by funding sources 2) it is monies received from state and local funding to provide protection related to the managed care contract and 3) is for prepaid expenditures.

The increase in fund balance of \$186,288 is a result of a number of things. These were a net increase from excess local funds of \$194,444, an increase of \$127,629 from Adult Benefit Waiver dollars received in excess of expenditures, an increase in the risk corridor financing accounted for an additional \$69,208, and an increase in the reserve for accrued sick and vacation of \$116,316. These increases were offset by capital asset purchases not expensed in the MDCH settlement of \$321,309.

## **BUDGETARY HIGHLIGHTS**

The Authority prepares a formal budget prior to the beginning of the fiscal year with necessary amendments made on a quarterly basis. Each of the amendments are approved by the Board and submitted to the Department of Community Health. The actual revenues of \$61,594,707 were less than 1% over the original budget and 4.0% under the amended budget. The amended revenue budget approved by the Board reflected all Medicaid revenue as current year income. The \$3,011,122 of Medicaid Savings from FY 2004 to be used in FY 2005 is not reflected in revenue in the financial statements but rather as deferred revenue in the Balance Sheet. Medicaid Savings of \$2,582,475 from FY 2003 spent in FY 2004 was reflected in budgeted as well as actual revenues.

The actual expenditures of \$61,408,419 compared to the original budget of \$60,636,973 represents a difference of \$771,446 or 1.3%. The difference between actual expenditures and the Amended budget of \$62,616,417 was \$1,207,998 or 1.9% of the Amended Budget. The difference represents lapsed Medicaid revenue and an increase in the Medicaid Savings between FY 2003 and FY 2004 as described above. Most of the increase between Original and Amended budgets for the PIHP reflect increases in the funds allocated to Lapeer and Sanilac CMH's. The Original budget for Grants included the budget for the Integrity Clubhouse that had grant funding for start-up costs. It was moved to Contract Agencies in the Amended Budget accounting for almost \$350,000 of the change between those lines. The reduction in State Institutions was the result of managements continuing close monitoring of occupancy in State Facilities. The decrease between the Original and Amended budgets for Residential Homes reflects savings from the consolidation of providers from 4 to 3 for a full year. The Original budget reflected costs based actual costs in the previous year in which the consolidation was phased in and in which costs of the changeover were incurred.

The Original budget also reflected the cost of a planned Clinical Foster Care Home that was not implemented during the year.

## **CAPITAL ASSETS**

The Authority had \$1,145,240 in capital assets, net of accumulated depreciation, at September 30, 2004. This is an increase of \$132,170 from the previous year. The purchase of land and construction in progress on the new Children's Crisis Home represent an increase of \$248,016. This was offset by depreciation for the year in excess of new asset purchases. The breakdown of assets at September 30, 2004 is as follows:

Land	\$ 72,151
Construction in Progress	195,865
Buildings	141,914
Leasehold Improvements	400,731
Equipment	<u>1,876,011</u>
	2,686,672
Accumulated Depreciation	<u>(1,541,432)</u>
	<u>\$1,145,240</u>

## **ECONOMIC FACTORS AND NEXT YEAR'S BUDGET**

The State of Michigan, the primary source of funding for the St. Clair County Community Mental Health Authority is still facing a major budget deficit for fiscal 2005. DCH created a new funding category called Adult Benefits Waiver covering individuals previously with little or no medical coverage. This started in October of 2003. It was funded in FY 2004 through an equal reduction in GF. The total received in FY 2004 was \$808,862 from which St. Clair CMHA was able to add \$127,629 to undesignated fund balance. However, in mid-2004, new enrollments were frozen and revenues began to decline. For FY 2005, DCH has made an adjustment to the GF budget to make up the ABW loss.

As reported in the MD&A in 2004, the Medicaid funding was restructured from the previous PEPM formulas. DCH, in accordance with direction from CMS at the federal level, began calculating the monthly payments on additional criteria effective 1-1-2004. Medicaid funding is now broken into 3 different funding structures referred to as State Plan (1915(b)(3)), Alternative Services (1915(b)(3)), and Waiver Services (1915 (c)). Funding is calculated with new "regional" factors in place of the previous "intensity factors." This did not result in a decrease in funding for the Thumb Mental Health Alliance. Revenue projections for FY 2005 are currently at a \$2,000,000 increase over FY 2004. This is subject to fluctuation based on actual HSW enrollments, eligible lives and potential rate changes by MDCH. The projected revenue can also be impacted by any change to the Medicaid enrollee eligibility criteria, freezing of new HSW slots, and/or reductions to GF revenue base.

As mentioned above, the Medicaid Savings at September 30, 2005 was \$3,011,122. The official GF allocation for FY 2005 had not been received from DCH as of the writing of this letter. Management believes that although the original budget for FY 2005 General Fund expenditures was in excess of the anticipated GF revenue, it can be offset in part by ongoing savings from the reduction of State Facility usage and the GF carry forward from fiscal 2004 of \$194,162.

The draw down of additional Medicaid revenues that began at the end of fiscal 2002 still continues in FY 2005. Management believes that absent a significant decline in the number of Medicaid eligibles during FY 2005, a decline in HSW (C Waiver) revenues or further budget cuts, fiscal 2005 will end with some planned savings to carry forward to fiscal 2006.

### **CONTACTING THE AUTHORITY MANAGEMENT**

This financial report is designed to provide a general overview of the St. Clair County Community Mental Health Authority's finances and to show accountability. Questions concerning any of the information provided in this report or request for additional financial information should be addressed to the St. Clair County Community Mental Health Authority, 1011 Military Street, Port Huron, MI 48060-5416.

## **BASIC FINANCIAL STATEMENTS**

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**BALANCE SHEET/STATEMENT OF NET ASSETS**

**SEPTEMBER 30, 2004**

	<u>Governmental Activities</u>	<u>Adjustments Note 2</u>	<u>Statement of Net Assets</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 7,111,015	\$ -	\$ 7,111,015
Accounts receivable (net of allowances)	87,732	-	87,732
Due from other governmental units (net of allowances)	2,008,663	-	2,008,663
Prepaid expenditures	267,216	-	267,216
Restricted Assets -			
Cash - Accrued vacation and sick	1,240,473	-	1,240,473
- Risk Corridor Financing	4,358,609	-	4,358,609
Capital Asset, net of depreciation			
Assets not being depreciated	-	268,016	268,016
Assets being depreciated	-	877,224	877,224
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Assets	<u>\$ 15,073,708</u>	<u>\$ 1,145,240</u>	<u>\$ 16,218,948</u>
<b>LIABILITIES</b>			
Accounts Payable	1,195,601	-	1,195,601
Accrued payroll and payroll taxes	533,272	-	533,272
Due to other governmental units	697,378	-	697,378
Due to fiduciary funds	278,873	-	278,873
Deferred revenue	3,453,718	-	3,453,718
Long-term liabilities			
Accrued vacation and sick	-	1,240,473	1,240,473
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Liabilities	<u>6,158,842</u>	<u>1,240,473</u>	<u>7,399,315</u>
<b>FUND BALANCE</b>			
Reserved			
Prepaid expenditures	267,216	( 267,216)	-
Risk Corridor Financing	4,358,609	( 4,358,609)	-
Accrued vacation and sick	1,240,473	( 1,240,473)	-
Unreserved			
Designated - Managed Care	1,300,000	( 1,300,000)	-
- Contingencies	500,000	( 500,000)	-
Undesignated	1,248,568	( 1,248,568)	-
	<u>                    </u>	<u>                    </u>	<u>                    </u>
Total Fund Balance	<u>8,914,866</u>	<u>( 8,914,866)</u>	<u>-</u>
	<u>                    </u>		
Total Liabilities and Fund Balances	<u>15,073,708</u>		
<b>NET ASSETS</b>			
Invested in capital assets		1,145,240	1,145,240
Restricted		4,358,609	4,358,609
Unrestricted		3,315,784	3,315,784
		<u>                    </u>	<u>                    </u>
Total Net Assets		<u>8,819,633</u>	<u>8,819,633</u>

See Notes to  
Financial Statements

# ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

## STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES/STATEMENT OF ACTIVITIES FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

	Governmental Activities	Adjustments Note 2	Statement of Net Activities
<b>Revenues:</b>			
Intergovernmental -			
Federal/State	\$ 58,683,110	\$ -	\$ 58,683,110
Local	1,293,524	-	1,293,524
Charges for services	355,687	-	355,687
Interest and rents	188,821	-	188,821
Other revenue	117,893	-	117,893
	<u>60,639,035</u>	<u>-</u>	<u>60,639,035</u>
<b>Expenditures/Expenses:</b>			
Developmental Disability Programs	4,426,832	( 52,200)	4,374,632
Mental Illness Programs	7,821,227	45,089	7,866,316
Administration and Support Services	4,715,567	( 339,589)	4,375,978
PIHP	26,799,169	31,333	26,830,502
Grants	495,366	( 7,986)	487,380
State Institutions	849,420	-	849,420
Contract Agencies	6,453,315	-	6,453,315
Residential Homes	9,847,523	-	9,847,523
Loss on Disposal of Equipment	-	9,260	9,260
Depreciation	-	298,240	298,240
	<u>61,408,419</u>	<u>( 15,853)</u>	<u>61,392,566</u>
Excess of revenues over (under) expenditures/expenses	( 769,384)	15,853	( 753,531)
<b>Other Financing Sources:</b>			
County appropriation	<u>955,672</u>	<u>-</u>	<u>955,672</u>
Excess of revenues and other financing sources over expenditures/expenses	186,288	15,853	202,141
Fund Balance at beginning of fiscal year	<u>8,728,578</u>	<u>( 111,086)</u>	<u>8,617,492</u>
Fund Balance at end of fiscal year	<u>\$ 8,914,866</u>	<u>\$ ( 95,233)</u>	<u>\$ 8,819,633</u>

See Notes to  
Financial Statements

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**STATEMENT OF GOVERNMENTAL REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES**

**BUDGET AND ACTUAL**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	<u>Original Budget</u>	<u>Amended Budget</u>	<u>Actual</u>
<b>Revenues:</b>			
Intergovernmental -			
Federal/State	\$ 59,079,841	\$ 62,045,786	\$ 58,683,110
Local	668,958	686,467	1,293,524
Charges for services	266,198	321,661	355,687
Interest and rents	141,892	110,000	188,821
Other revenue	14,802	27,894	117,893
	<u>60,171,691</u>	<u>63,191,808</u>	<u>60,639,035</u>
<b>Expenditures</b>			
Developmental Disability Programs	4,365,803	5,021,578	4,426,832
Mental Illness Programs	8,091,489	8,044,450	7,821,227
Administration and Support Services	4,025,391	4,680,091	4,715,567
PIHP	26,333,090	27,132,885	26,799,169
Grants	911,594	545,125	495,366
State Institutions	1,390,100	906,046	849,420
Contract Agencies	5,150,215	6,400,562	6,453,315
Residential Homes	10,369,291	9,885,680	9,847,523
	<u>60,636,973</u>	<u>62,616,417</u>	<u>61,408,419</u>
Excess of revenues over (under) expenditures	( 465,282)	575,391	( 769,384)
<b>Other Financing Sources:</b>			
County appropriation	<u>955,672</u>	<u>955,672</u>	<u>955,672</u>
Excess of revenues and other sources over expenditures	490,390	1,531,063	186,288
Fund Balance at beginning of fiscal year	<u>8,728,578</u>	<u>8,728,578</u>	<u>8,728,578</u>
Fund Balance at end of fiscal year	<u><u>\$ 9,218,968</u></u>	<u><u>\$ 10,259,641</u></u>	<u><u>\$ 8,914,866</u></u>

See Notes to  
Financial Statements

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**STATEMENT OF FIDUCIARY NET ASSETS  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
SEPTEMBER 30, 2004**

**ASSETS:**

Cash and cash equivalents	\$ 296,656
Due from other funds	<u>278,873</u>
	<u>\$ 575,529</u>

**NET ASSETS:**

Reserved for employees' health care	<u>\$ 575,529</u>
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**STATEMENT OF CHANGES IN FIDUCIARY NET ASSETS  
PENSION AND OTHER EMPLOYEE BENEFIT TRUST FUNDS  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

**Additions:**

Employer contributions	\$ 278,873
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**Deductions:**

Net increase	<u>-</u> 278,873
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Net assets held in trust for health insurance

Beginning of year	<u>296,656</u>
End of year	<u>\$ 575,529</u>

See Notes to  
Financial Statements



# **ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

## **NOTES TO FINANCIAL STATEMENTS SEPTEMBER 30, 2004**

### **NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES:**

The accounting methods and procedures adopted by the St. Clair County Community Mental Health Authority conform in all material respects to U.S. generally accepted accounting principles as applied to governmental entities and the Uniform Accounting Manual for County Mental Health Boards as prescribed by the State of Michigan. The following Notes to the Financial Statements are an integral part of the Authority's financial statements.

#### **A. Reporting Entity –**

The St. Clair County Community Mental Health Services Board, a component unit of St. Clair County, provides mental health services to residents of St. Clair County and is the prepaid inpatient health plan for the three County regions comprised of St. Clair, Lapeer and Sanilac counties. The Board was originally established in 1965 under the provision of Act 54 PA 1963, as amended, and on January 1, 2000 adopted authority status under Public Act 290 of the Public Acts of 1995. The Board assumed the responsibilities as the Prepaid Inpatient Health Plan (PIHP) for the Thumb Region as of October 1, 2002.

#### **B. Measurement Focus, Basis of Accounting and Financial Statement Presentation –**

The government-wide financial statements (i.e. the Statement of Net Assets and Statement of Activities) are reported using the economic resource measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grant and similar items are recognized as revenues as soon as all eligibility requirements imposed by the provider have been met.

The fund (modified accrual) statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized when it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 90 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences and claims and judgments are recorded only when payment is due.

#### **C. Assets, Liabilities, and Net Assets or Equity –**

**Cash and Cash Equivalents** – The Authority's cash and cash equivalents are cash on hand, demand deposits and certificates of deposits with original maturities of three months or less from the date of acquisition.

**Receivables** – All receivables are shown net of allowances for uncollectible amounts.

**Prepaid Items** – Certain payments to vendors reflect cost applicable to future fiscal years and are recorded as prepaid expenditures.

## NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - (cont'd):

**Restricted Assets** – The Michigan Department of Community Health (DCH) provides funding for accrued vacation and sick time as it is earned, regardless of when paid, however requires the amounts to be maintain in separate bank accounts. In addition DCH allows mental health organizations to establish a separate account to cover the risk exposure under the Managed Care Specialty Services Program.

**Capital Assets** – Are reported in the government-wide statements. Capital assets are defined by the Authority as assets with an initial individual cost of \$1,000 or more and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation. The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized.

Property, plant and equipment is depreciated using the straight-line method over the following useful lives.

Building	40
Building Improvements	10
Equipment	5-20

**Accrued Vacation and Sick Pay** – In accordance with contracts negotiated with the various employee groups, individual employees have a vested right upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. All amounts vested are accrued in the government-wide statements. A liability for these amounts are only reported in the fund (modified accrual) statements if they have matured, for example, as a result of employee resignations and/or retirement.

**Deferred Revenues** – In both the government-wide statements and in the fund (modified accrual) financial statements revenues received or recorded before it is earned is recorded as a deferred revenue. In addition in the fund (modified accrual) statements, revenues that are not both measurable and available are recorded as deferred revenues.

**Fund Equity** – The fund (modified accrual) statements report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designation of fund balance represents tentative management plans that are subject to change.

**Estimates** – In preparing financial statements in conformity with generally accepted accounting principles, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**Federal Programs** – The Authority has not integrated its Single Audit Report and Schedule of Expenditures of Federal Awards as part of the annual financial report. The Single Audit will be issued prior to June 30, 2005, under a separate cover as supplementary information.

**NOTE 2 - RECONCILIATION OF GOVERNMENT-WIDE AND FUND FINANCIAL STATEMENTS:**

- A.** Explanation of differences between the fund (modified accrual) balance sheet and the government-wide statements of net assets (Page 9).

Fund Balance	\$ 8,914,866
Capital assets used in the modified accrued activities which are not financial resources and therefore are not reported in the fund statements	
Add – capital assets	2,686,672
Deduct – accumulated depreciation	( 1,541,432)
Long-term accrued vacation and sick time that are not due in the current period, therefore, not reported in the fund (modified accrual) activities	( 1,240,473)
Net Assets	<u>\$ 8,819,633</u>

- B.** Explanation of differences between the fund (modified accrual) statement of revenues, expenditures and changes in fund balance and the government-wide statement of net activities (Page 10).

Net changes in fund balance – modified accrual	\$ 186,288
The fund (modified accrual) statements report capital outlay as expenditures. However, in the Statement of Net Assets the cost of those assets is allocated over their estimated useful lives and reported as depreciation expenses	
Add – capital outlay	439,670
Deduct – net loss on disposal of capital assets	( 9,260)
Deduct – depreciation	( 298,240)
Accrued vacation and sick time expenses not reported in the fund (modified accrual) statement because they will not be paid with current financial resources	( 116,317)
Change in Net Assets	<u>\$ 202,141</u>

### **NOTE 3 - DEPOSITS AND INVESTMENTS:**

In accordance with Michigan Compiled Laws, Section 129.91, the Authority is authorized to invest its surplus funds in the following types of investments:

- a) In bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- b) In certificates of deposit, savings accounts, deposit accounts, or depository receipts of a financial institution, but only if the bank, savings and loan association, or credit union is eligible to be a depository of surplus funds belonging to the State under Sections 5 or 6 of Act No. 105 of the Public Acts of 1855, as amended, in Section 21.145 and 21.146 of the Michigan Compiled Laws.
- c) In commercial paper rated at the time of purchase within the two (2) highest classifications established by not less than two (2) standard rating services and which matures not more than 270 days after the date of purchase.
- d) In the United States government or federal agency obligation repurchase agreements.
- e) In bankers acceptances of United States Banks.
- f) In mutual funds registered under the investment company Act of 1940, with the intent to maintain \$1.00 per share net asset value and purchase only investment vehicles that are legal for direct investment by a public corporation.
- g) In obligations described (a) through (f) if purchased through an agreement under the urban cooperation act of 1967.
- h) In investment pools organized under the surplus funds investment act, 367 of 1982.
- i) In investment pools organized under the local government investment pool act, 121 of 1985.

#### **Deposits -**

Michigan Public Acts authorize the units of local government in Michigan to deposit in the accounts of federally insured banks, insured credit unions, and savings and loan associations. Deposits of the Authority are at federally insured banks located in the State of Michigan with all accounts maintained in the name of the Authority.

Federal Deposit Insurance Corporation (FDIC) regulations provide that deposits of governmental units are to be separately insured for the amount of \$100,000 for deposits in an insured bank for savings deposits and \$100,000 for demand deposits. Furthermore, if specific deposits are regulated by statute or bond indenture, these specific deposits are to be separately insured for the amount of \$100,000.

**NOTE 3 - DEPOSITS AND INVESTMENTS - (cont'd):**

As of September 30, 2004 the carrying amount and bank balance of the Authority was \$13,006,753 and \$16,195,324 respectively, of which \$200,000 is covered by FDIC Insurance, with the remaining balance uninsured and uncollateralized.

The Authority also had petty cash of \$3,250 included in cash and cash equivalents.

Reconciliation to Amounts reported in Financial Statements:

Governmental Fund:	
Cash and Cash Equivalents	\$ 7,111,015
Restricted Cash –	
Vacation and sick pay	1,240,473
Risk Corridor Financing	<u>4,358,609</u>
	12,710,097
Fiduciary Fund:	
Cash and Cash Equivalents	<u>296,656</u>
	<u>\$ 13,006,753</u>

**NOTE 4 - RECEIVABLES:**

Receivables as of September 30, 2004 are as follows:

Accounts Receivable –	
Fees	\$ 146,180
Group Homes	1,565
Other	<u>7,987</u>
	155,732
Allowance for Doubtful Accounts	<u>( 68,000)</u>
	<u>87,732</u>
Intergovernmental –	
Federal/State	439,807
Local	<u>1,578,856</u>
	2,018,663
Allowance for Doubtful Accounts	<u>( 10,000)</u>
	<u>2,008,663</u>
	<u>\$ 2,096,395</u>

The fund (modified accrual) statements report deferred revenue in connection with receivables that are not considered to be available to liquidate liabilities of the current period. Both the government-wide and the fund (modified accrual) statements defer revenue recognition in connection with resources that have been received, but not earned. At the end of the current year, the various components of deferred revenue were as follows:

	<u>Unearned</u>
Grants	\$ 248,434
Medicaid Savings	3,011,122
General Fund Carryforward	<u>194,162</u>
	<u>\$ 3,453,718</u>

**NOTE 5 - CAPITAL ASSETS:**

Capital assets activity for the current year was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated –				
Land	\$ 20,000	\$ 52,151	\$ -	\$ 72,151
Construction in Progress	<u>-</u>	<u>195,865</u>	<u>-</u>	<u>195,865</u>
	<u>20,000</u>	<u>248,016</u>	<u>-</u>	<u>268,016</u>
Capital assets being depreciated –				
Building	141,914	-	-	141,914
Leasehold improvements	374,792	25,939	-	400,731
Equipment	<u>1,940,586</u>	<u>165,715</u>	<u>230,290</u>	<u>1,876,011</u>
	<u>2,457,292</u>	<u>191,654</u>	<u>230,290</u>	<u>2,418,656</u>
Less accumulated depreciation for –				
Building	21,226	6,758	-	27,984
Leasehold improvements	172,775	28,025	-	200,800
Equipment	<u>1,270,221</u>	<u>263,457</u>	<u>221,030</u>	<u>1,312,648</u>
	<u>1,464,222</u>	<u>298,240</u>	<u>221,030</u>	<u>1,541,432</u>
Net capital assets being depreciated	<u>993,070</u>	<u>( 106,586)</u>	<u>9,260</u>	<u>877,224</u>
Total capital assets net of depreciation	<u>\$ 1,013,070</u>	<u>\$ 141,430</u>	<u>\$ 9,260</u>	<u>\$ 1,145,240</u>

**NOTE 6 - PAYABLES:**

Payables at September 30, 2004 are as follows:

Payables –	
Accounts	\$ 397,738
Contract Agencies	575,483
Group/Foster Care Homes	93,010
Community Inpatient	<u>129,370</u>
	<u>1,195,601</u>
Accrued Payroll and Taxes –	
Wages and taxes	<u>533,272</u>
Intergovernmental –	
Federal/State	592,458
Local	<u>104,920</u>
	<u>697,378</u>
	<u>\$ 2,426,251</u>

**NOTE 7 - LONG-TERM DEBT:**

In accordance with contracts negotiated with various employee groups of the Authority, individual employees have vested rights upon termination of employment to receive payments for unused vacation and sick leave under formulas and conditions specified in the contract. As of September 30, 2004 the vested benefit amounted to \$1,240,473.

#### **NOTE 8 - RETIREMENT SYSTEM:**

Full-time employees, except for contract management personnel, of the St. Clair County Mental Health Authority, are covered under the St. Clair County Employees Retirement System. The plan is a single employer defined benefit pension plan, which was established by County ordinance in 1964 and is administered, managed and operated by St. Clair County. As of December 31, 2003, the St. Clair County Retirement System, which covers substantially all employees of the County, total actuarial accrued liability and actuarial value of assets amounted to \$139,409,729 and \$146,556,581, respectively. The actuarial valuation of the plan, dated December 31, 2002, determined a contribution rate for 2004 of 3.52% of covered payroll.

Detailed information, including GASB Statement No. 25 and 27 information, concerning the St. Clair County Retirement System is presented in its publicly available December 31, 2004 actuarial valuation report and in the St. Clair County December 31, 2004 annual financial statements, (which will be issued later this year).

#### **NOTE 9 - POST-RETIREMENT BENEFITS:**

In addition to the basic retirement benefits in Note 8, the St. Clair County Retirement System provided health insurance benefits to retirees with a required number of years service, except contract management personnel. An actuarial report is obtained for the post-retirement benefit on an annual basis to assess that progress is being made to fund these benefits, however funding is only provided if funds are available. As of December 31, 2003, the total accrued liabilities and valuation assets amounted to \$124,488,577 and \$34,542,841 respectively. For the year ended December 31, 2004, the County made contributions representing 9.48% of covered payroll. The actuarial valuation of the plan, dated December 31, 2002, determined a contribution rate for 2004 of 28.96% of covered payroll. Unfunded actuarial accrued liabilities were financed as a level percentage of member payroll over a closed period of 10 years. If unfunded actuarial accrued liabilities were funded over 25 years the rate would be 16.79%.

The Authority has also provided health insurance benefits to the management personnel not covered by the St. Clair County Retirement System. To be eligible, the employee must have 20 years of service and be at least 55 years of age. The Authority has elected to fund these benefits on an actuarial basis. The plan currently covers four (4) active members. The latest actuarial report was completed as of December 31, 2003 and indicated that there was an unfunded liability of \$267,178. The Authority elected to fund all past service costs in fiscal 2004. For the nine months from January 1, through September 30, 2004 the Authority's pension cost for this group of employees was \$11,695 or 4.29% of covered payroll, which was equal to the Authority's contribution.

#### **NOTE 10 - DEFERRED COMPENSATION:**

The Authority offers all its employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457. The assets of the plans are held in trust, as described in IRC Section 457 (g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodian thereof, for the exclusive benefit of the participants, holds the custodial account for the beneficiaries of this Section 457 plan, and the assets may not be diverted to any other use. The administrators are agents of the employer for the purposes of providing direction to the custodian of the custodial account from time to time for the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32, plan balances and activities are not reflected in the Authority's financial statements.

**NOTE 11 - LEASES:**

The Authority has entered into certain operating leasing agreements for facilities. At September 30, 2004, these leases contain provisions whereby if various funding sources are not available they are cancelable.

The total of rent expenditures for the fiscal year ended September 30, 2004, is \$312,230.

**NOTE 12 - STATE OF MICHIGAN SETTLEMENT:**

As is common for Mental Health Authorities, the St. Clair County Community Mental Health Authority receives a significant portion of its revenues through its full management contract with the State of Michigan Department of Community Health, with a settlement reached at the end of each fiscal year. The settlement is based on accumulated reimbursable cost of the Authority and is subject to final audit by the Department of Community Health. For 2004 and 2003, St. Clair County Community Mental Health Authority owed the Michigan Department of Community Health \$342,429 and \$3,021,544 respectively.

**NOTE 13 - INSURANCE/RISK MANAGEMENT:****General Liability -**

The Authority is exposed to various risk of loss to general and auto liability, property damage and errors and omissions. The Authority is a member in a public risk pool administered by the Michigan Municipal Risk Management Authority for risk of losses relating to its property and general liability (including auto liability and vehicle physical damage).

MMRMA is a municipal self-insurance entity operating pursuant to the State of Michigan Public Act 138 of 1982. The purpose of the MMRMA is to administer a risk management fund which provides members with loss protection for general and property liability.

The St. Clair County Community Mental Health Authority has joined with numerous other governmental agencies in Michigan as a participant in MMRMA's "State Pool". Members of the State Pool do not have individual self-retention amounts other than \$250 deductible per occurrence of property and vehicle coverage.

State Pool members' limits of coverage (per occurrence) are \$15 million for liability and approximately \$3,300,000 for property and crime. If a loss exceeds these limits or, if for any reason, MMRMA's resources are depleted, the payment of all unpaid losses are the sole obligation of the St. Clair County Community Mental Health Authority.

**Workers Compensation -**

The Authority purchases workers compensation insurance through a commercial carrier with a maximum limit of \$500,000 per occurrence.



**NOTE 14 - CONTRACTED TRANSPORTATION SERVICES:**

The Authority entered into an agreement with the Blue Water Area Transportation Commission to provide transportation services for the Authority's clientele. Under the agreement the St. Clair County Community Mental Health Authority was to undertake, carry out, and complete the transportation services. In addition, the agreement specified that the Authority is to pay all costs of said services and shall be reimbursed approximately 42.23% of the Eligible Operation Expenses for fiscal 2004 and, if applicable, an additional 10.95% of Eligible Nonurban costs. The final percentage of reimbursement is based on the funding the Blue Water Area Transportation Commission receives from the Michigan Department of Transportation.

For the fiscal year 2004 the Authority incurred \$696,485 of eligible expenses, which resulted in an estimated revenue of \$337,491.

## **SUPPLEMENTARY FINANCIAL DATA**

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE  
SEPTEMBER 30, 2004**

	St. Clair CMH Operations	PIHP	Total
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,459,828	\$ 1,651,187	\$ 7,111,015
Accounts receivable (net of allowances)	87,732	-	87,732
Due from other governmental units (net of allowances)	576,766	1,431,897	2,008,663
Due from other funds	-	613,694	613,694
Prepaid expenditures	267,216	-	267,216
Restricted Assets -			
Cash - Accrued vacation and sick	1,018,561	221,912	1,240,473
- Risk Corridor Financing	355,572	4,003,037	4,358,609
Total Assets	<u>\$ 7,765,675</u>	<u>\$ 7,921,727</u>	<u>\$ 15,687,402</u>
<b>LIABILITIES</b>			
Accounts Payable	\$ 1,099,879	\$ 95,722	\$ 1,195,601
Accrued payroll and payroll taxes	450,086	83,186	533,272
Due to other governmental units	276,660	420,718	697,378
Due to PIHP	613,694	-	613,694
Due to fiduciary funds	192,843	86,030	278,873
Deferred revenue	442,596	3,011,122	3,453,718
Total Liabilities	<u>3,075,758</u>	<u>3,696,778</u>	<u>6,772,536</u>
<b>FUND BALANCE</b>			
Reserved -			
Prepaid expenditures	267,216	-	267,216
Risk Corridor Financing	355,572	4,003,037	4,358,609
Accrued vacation and sick	1,018,561	221,912	1,240,473
Unreserved -			
Designated - Managed Care	1,300,000	-	1,300,000
- Contingencies	500,000	-	500,000
Undesignated	1,248,568	-	1,248,568
Total Fund Balance	<u>4,689,917</u>	<u>4,224,949</u>	<u>8,914,866</u>
Total Liabilities and Fund Balances	<u>\$ 7,765,675</u>	<u>\$ 7,921,727</u>	<u>\$ 15,687,402</u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**COMBINING SCHEDULE OF GOVERNMENTAL REVENUES, EXPENDITURES AND  
CHANGES IN FUND BALANCES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	St. Clair CMH Operations	PIHP	Eliminations	Total
<b>Revenues:</b>				
Intergovernmental -				
Federal/State	\$ 32,700,139	\$ 52,602,756	\$( 26,619,785)	\$ 58,683,110
Local	718,904	1,233,901	( 659,281)	1,293,524
Charges for services	355,687	-		355,687
Interest and rents	141,227	47,594	-	188,821
Other revenue	117,893	-	-	117,893
	<u>34,033,850</u>	<u>53,884,251</u>	<u>( 27,279,066)</u>	<u>60,639,035</u>
<b>Expenditures/Expenses:</b>				
Developmental Disability Programs	4,426,832	-	-	4,426,832
Mental Illness Programs	7,821,227	-	-	7,821,227
Administration and Support Services	4,715,567	-	-	4,715,567
PIHP	-	54,078,235	( 27,279,066)	26,799,169
Grants	495,366	-	-	495,366
State Institutions	849,420	-	-	849,420
Contract Agencies	6,453,315	-	-	6,453,315
Residential Homes	9,847,523	-	-	9,847,523
	<u>34,609,250</u>	<u>54,078,235</u>	<u>( 27,279,066)</u>	<u>61,408,419</u>
Excess of revenues over (under) expenditures/expenses	<u>( 575,400)</u>	<u>( 193,984)</u>	<u>-</u>	<u>( 769,384)</u>
<b>Other Financing Sources (Uses):</b>				
County appropriation	955,672	-	-	955,672
Operating transfers in (out)	<u>( 343,073)</u>	<u>343,073</u>	<u>-</u>	<u>-</u>
	<u>612,599</u>	<u>343,073</u>	<u>-</u>	<u>955,672</u>
Excess of revenues and other financing sources over expenditures/expenses	37,199	149,089	-	186,288
Fund Balance at beginning of fiscal year	4,806,080	3,922,498	-	8,728,578
Transfer of fund balance	<u>( 153,362)</u>	<u>153,362</u>	<u>-</u>	<u>-</u>
Fund Balance at end of fiscal year	<u>\$ 4,689,917</u>	<u>\$ 4,224,949</u>	<u>\$ -</u>	<u>\$ 8,914,866</u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**GENERAL FUND**

**COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE**

**SEPTEMBER 30, 2004**

	<u>Operating</u>	<u>Risk Corridor Financing</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 5,459,828	\$ -	\$ 5,459,828
Accounts receivable (net of allowances) -			
Fees	78,180	-	78,180
Group Homes	1,565	-	1,565
Other	7,987	-	7,987
Due from other governmental units (net of allowances) -			
State -			
Grants	87,655	-	87,655
OBRA	35,453	-	35,453
Local	453,658	-	453,658
Prepaid expenditures	267,216	-	267,216
Restricted Assets -			
Cash - Accrued vacation and sick	1,018,561	-	1,018,561
- Risk Corridor Financing	-	355,572	355,572
Total Assets	<u>\$ 7,410,103</u>	<u>\$ 355,572</u>	<u>\$ 7,765,675</u>
<b>LIABILITIES AND FUND EQUITY</b>			
<b>Liabilities:</b>			
Payables -			
Accounts	\$ 302,016	\$ -	\$ 302,016
Contract Agencies	575,483	-	575,483
Group/Foster Care Homes	93,010	-	93,010
Community Inpatient	129,370	-	129,370
Accrued payroll and payroll taxes	450,086	-	450,086
Due to other governmental units -			
State -			
Institutional Care	243,590	-	243,590
Other	5,914	-	5,914
Local	27,156	-	27,156
Due to PIHP	613,694	-	613,694
Due to fiduciary fund	192,843	-	192,843
Deferred revenue	442,596	-	442,596
Total Liabilities	<u>3,075,758</u>	<u>-</u>	<u>3,075,758</u>
<b>Fund Equity:</b>			
Reserved -			
Prepaid expenditures	267,216	-	267,216
Accrued vacation and sick time	1,018,561	-	1,018,561
Risk Corridor Financing -	-	355,572	355,572
Unreserved -			
Designated - Managed Care	1,300,000		1,300,000
- Contingencies	500,000	-	500,000
Undesignated	1,248,568	-	1,248,568
Total Fund Equity	<u>4,334,345</u>	<u>355,572</u>	<u>4,689,917</u>
Total Liabilities and Fund Equity	<u>\$ 7,410,103</u>	<u>\$ 355,572</u>	<u>\$ 7,765,675</u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**GENERAL FUND**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	<u>Operating</u>	<u>ISF</u>	<u>Total</u>
<b>Revenues:</b>			
Intergovernmental -			
Federal/State	\$ 32,700,139	\$ -	32,700,139
Local	718,904	-	718,904
Charges for services	355,687	-	355,687
Interest and rents	135,874	5,353	141,227
Other revenue	117,893	-	117,893
	<u>34,028,497</u>	<u>5,353</u>	<u>34,033,850</u>
<b>Expenditures:</b>			
<b>Developmental Disability Programs -</b>			
Family Support Services	1,077,131	-	1,077,131
Family Support Home Based Services	149,568	-	149,568
Support Services	1,224,151	-	1,224,151
Children's Waiver Services	30,378	-	30,378
OBRA PASARR	12,133	-	12,133
OBRA Active/ Less than Active Treatment	17,741	-	17,741
Early On Program	202,038	-	202,038
Family Support Respite Care	477,100	-	477,100
Community Integration Services	655,810	-	655,810
Transportation	580,782	-	580,782
	<u>4,426,832</u>	<u>-</u>	<u>4,426,832</u>
<b>Mental Illness Programs -</b>			
Jail Rehabilitation Services	138,228	-	138,228
Port Huron Counseling Center	1,355,700	-	1,355,700
Western Area Outpatient	413,285	-	413,285
River District Counseling Center	585,804	-	585,804
Children's Home Based Services	584,799	-	584,799
OBRA Active/Less than Active Services	86,615	-	86,615
OBRA PASARR	109,200	-	109,200
Lakeshore Adult Day Treatment	658,944	-	658,944
Assertive Community Treatment	508,904	-	508,904
MIC Clinical Case Management Services	795,481	-	795,481
Hopps Road	28,777	-	28,777
Community Inpatient Facilities	957,810	-	957,810
Adult Support Services	1,134,251	-	1,134,251
On-Call	144,279	-	144,279
Placement and Facility Liaison	136,595	-	136,595
Head Start	118,024	-	118,024
Transportation	64,531	-	64,531
	<u>7,821,227</u>	<u>-</u>	<u>7,821,227</u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**GENERAL FUND**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE**

**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

**(continued)**

	<u>Operating</u>	<u>ISF</u>	<u>Total</u>
<b>Other -</b>			
Administration and Support Services -			
CMH Board	\$ 3,947,199	\$ -	\$ 3,947,199
Drawdown match	659,281	-	659,281
Community Services			
Coordinating Body	109,087	-	109,087
 Grants -			
Anti Stigma Block Grant	17,810	-	17,810
Technical Assistance Support	75,915	-	75,915
Strong Families Safe Children	139,016	-	139,016
Path Grant	46,685	-	46,685
Casemanagement Supports Block Grant	21,767	-	21,767
CSP Juvenile Justice	50,334	-	50,334
Safe St. Clair County	4,401	-	4,401
Project Stay Block Grant	53,023	-	53,023
Recovery Block Grant	5,654	-	5,654
Community Foundation Car Seats	6,586	-	6,586
Robert Woods Johnson	72,909	-	72,909
Other Grants	1,266	-	1,266
 State Institutions	849,420	-	849,420
Contract Agencies	6,453,315	-	6,453,315
Residential Homes	9,847,523	-	9,847,523
	<u>22,361,191</u>	<u>-</u>	<u>22,361,191</u>
 Total Expenditures	<u>34,609,250</u>	<u>-</u>	<u>34,609,250</u>
 Excess of revenues over (under) expenditures	<u>( 580,753)</u>	<u>5,353</u>	<u>( 575,400)</u>
 <b>Other Financing Sources (Uses):</b>			
County appropriation	955,672	-	955,672
G.F. ISF Abatement	65,473	( 65,473)	-
Transfers in (out)	( 343,073)	-	( 343,073)
	<u>678,072</u>	<u>( 65,473)</u>	<u>612,599</u>
 Excess of revenues and other sources over (under) expenditures and other uses	97,319	( 60,120)	37,199
 Fund Balance at beginning of fiscal year	4,390,388	415,692	4,806,080
 Transfer of fund balance	<u>( 153,362)</u>	<u>-</u>	<u>( 153,362)</u>
 Fund Balance at end of fiscal year	<u>\$ 4,334,345</u>	<u>\$ 355,572</u>	<u>\$ 4,689,917</u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**DETAILED SCHEDULE OF REVENUES - GENERAL FUND**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	General Operating	ISF	Total
<b>Intergovernmental:</b>			
Federal/State -			
Department of Community Health	\$ 4,467,658	\$ -	\$ 4,467,658
Adult Benefit Waiver	808,862	-	808,862
Title XX replacement	32,800	-	32,800
Technical Assistance Support Grant	80,983	-	80,983
MI Child	27,320	-	27,320
Managed Care Capitated Payments	26,619,785	-	26,619,785
SAMSHA Grants	104,737	-	104,737
FIA -Strong Families Grant	160,744	-	160,744
Highway Safety	5,000	-	5,000
Juvenile Justice	45,040	-	45,040
CSCB Dues/Administration	7,600	-	7,600
SSI	4,616	-	4,616
OBRA	159,114	-	159,114
ISD Early On Grant	121,155	-	121,155
Path Homeless Grant	39,300	-	39,300
Other grants & reimbursements	15,425	-	15,425
	<u>32,700,139</u>	<u>-</u>	<u>32,700,139</u>
Local -			
Other County Reimbursement Contracts	217,693	-	217,693
Blue Water Area Transportation Revenue	337,491	-	337,491
Jail Coordinator Funding	48,251	-	48,251
EOC Head Start	24,000	-	24,000
Day Treatment/Night Watch	59,507	-	59,507
Reimbursements	31,962	-	31,962
	<u>718,904</u>	<u>-</u>	<u>718,904</u>
	<u>33,419,043</u>	<u>-</u>	<u>33,419,043</u>
<b>Charges for Services:</b>			
Fees -			
Medicaid	45,722	-	45,722
Medicare	106,387	-	106,387
Private pay	179,109	-	179,109
Blue Cross	8,713	-	8,713
Other Substance Abuse	10,377	-	10,377
Other insurance companies	5,379	-	5,379
	<u>355,687</u>	<u>-</u>	<u>355,687</u>
<b>Interest and Rents:</b>			
Interest	<u>135,874</u>	<u>5,353</u>	<u>141,227</u>
<b>Other Revenue:</b>			
Match money	23,802	-	23,802
Robert Woods Johnson Foundation	56,595	-	56,595
Community Foundation	6,543	-	6,543
Miscellaneous	30,953	-	30,953
	<u>117,893</u>	<u>-</u>	<u>117,893</u>
<b>Total Revenues</b>	<u><u>\$ 34,028,497</u></u>	<u><u>\$ 5,353</u></u>	<u><u>\$ 34,033,850</u></u>



**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**DETAILED SCHEDULE OF DEVELOPMENTAL DISABILITY PROGRAMS EXPENDITURES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

<b>Family Support Services -</b>	
Case Management	\$ 766,957
Family Skill Development	51,807
Community Living Support	12,874
Enhanced Health Care	135,589
Occupational Therapy	77,858
Health Services	32,046
	<u>1,077,131</u>
<b>Family Support Home Based Services -</b>	
Home Based Services	147,731
Community Living Support	1,837
	<u>149,568</u>
<b>Support Services -</b>	
Mental Health Clinic	
Occupational Therapy	101,380
Health	133,259
Case Management	757,070
Enhanced Health Care	232,442
	<u>1,224,151</u>
<b>Children's Waiver Services -</b>	
Case Management	<u>30,378</u>
<b>OBRA PASARR -</b>	
Mental Health Clinic	<u>12,133</u>
<b>OBRA Active/Less than Active Treatment -</b>	
Mental Health Clinic	<u>17,741</u>
<b>Early On Program -</b>	
Case Management	<u>202,038</u>
<b>Family Support Respite Care -</b>	
Respite Services	<u>477,100</u>
<b>Community Integration Services -</b>	
Community Living Support	364,632
Skill Building Assistance	291,178
	<u>655,810</u>
<b>Transportation</b>	<u>580,782</u>
	<u><u>\$ 4,426,832</u></u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**DETAILED SCHEDULE OF MENTAL ILLNESS PROGRAM EXPENDITURES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

<b>Jail Rehabilitation Services -</b>	
Mental Health Clinic	\$ 138,228
<b>Port Huron Counseling Center -</b>	
Mental Health Clinic	562,301
Health	146,224
Case Management	508,589
Community Living Support	138,586
	<u>1,355,700</u>
<b>Western Area Outpatient -</b>	
Mental Health Clinic	180,306
Health	6,117
Case Management	153,746
Community Living Support	73,116
	<u>413,285</u>
<b>River District Counseling -</b>	
Mental Health Clinic	193,709
Health	64,536
Case Management	248,017
Community Living Support	79,542
	<u>585,804</u>
<b>Childrens' Home Based Services -</b>	
Mental Health Clinic	16,315
Home Based Services	568,484
	<u>584,799</u>
<b>OBRA Active/Less Than Active Services -</b>	
Mental Health Clinic	86,615
<b>OBRA PASARR -</b>	
Mental Health Clinic	<u>109,200</u>
<b>Lakeshore Adult Day Treatment -</b>	
Day Program	237,783
Mental Health Clinic	85,658
Health	81,409
Case Management	190,263
Community Living Support	63,831
	<u>658,944</u>
<b>Assertive Community Treatment -</b>	
Mental Health Clinic	22,629
Assertive Community Treatment	486,275
	<u>508,904</u>
<b>MIC Clinical Case Management Services -</b>	
Mental Health Clinic	485,695
Occupational Therapy	26,798
Health	43,674
Case Management	130,277
Family Skill Development	23,966
Respite	85,071
	<u>795,481</u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**DETAILED SCHEDULE OF MENTAL ILLNESS PROGRAM EXPENDITURES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

(Continued)

<b>Hopps Road - Direct Operated Transition Staff</b>	<u>\$ 28,777</u>
<b>Community Inpatient Facilities -</b>	
Port Huron Hospital -	
MIA Services	674,309
SED Children	3,428
Harbor Oaks -	
MIA Services	114,405
SED Children	81,742
Other -	
MIA Services	54,562
SED Children	28,205
Psychiatric Consultations	1,159
	<u>957,810</u>
<b>Adult Support Services -</b>	
Mental Health Clinic	215,098
Occupational Therapy	242,879
Health	99,232
Case Management	577,042
	<u>1,134,251</u>
<b>On-Call</b>	<u>144,279</u>
<b>Placement and Facility</b>	<u>136,595</u>
<b>Transportation</b>	<u>64,531</u>
<b>Head Start -</b>	
Prevention Services	<u>118,024</u>
	<u><u>\$ 7,821,227</u></u>

ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

DETAILED SCHEDULE OF OTHER EXPENDITURES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004

Administration and Support Services -

CMH Board	\$ 3,699,183
Marysville Childrens Crisis Home	248,016
Drawdown match	659,281
Community Services Coordinating Body	<u>109,087</u>
	<u>\$ 4,715,567</u>

Grants -

Anti Stigma Block Grant	\$ 17,810
Technical Assistance Support	75,915
Strong Families/Safe Children	139,016
Path Grant	46,685
Casemanagement Supports Block Grant	21,767
CSP Juvenile Justice	50,334
Safe St. Clair County	4,401
Project Stay Block Grant	53,023
Recovery Block Grant	5,654
Community Foundation Car Seats	6,586
Robert Woods Johnson	72,909
Other	<u>1,266</u>
	<u>\$ 495,366</u>

Institutional Care:

Caro Regional Mental Health Center	\$ 327,120
Mount Pleasant Regional Center	396,200
County Institution Costs	<u>126,100</u>
Total State Institutions	<u>\$ 849,420</u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**DETAILED SCHEDULE OF CONTRACT AGENCY EXPENDITURES  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

Arc of St. Clair County -	
Work Activities Program	\$ 2,283,230
River District Adult Activities	467,930
Children's Waiver	13,525
Supported Employment	7,240
Living a Life in the Community	16,305
Consortium Agreement	14,850
Blue Water Center for Independent Living -	
Unit based fee for service	18,740
Blue Water Development Housing -	
Children's Waiver	34,115
Enhanced Home/Support Waiver	255,640
Living a Life in the Community	3,062
Michigan Vocational Rehabilitation	46,802
Center for Human Resources	58,252
I.M.P.A.C.T. - Community Support	
Community Support	205,228
Supported Community Integrated Services	99,686
Living a Life in the Community	5,139
Innovative Housing Development Corporation -	
Community Living Supports	128,773
Professional Counseling Center -	
Unit based fee for service	365,588
LT/HBS	588,637
Goodwill Industries	259,075
Individual Providers - H/SW	48,032
Probate Court - Public Guardian	38,370
Port of Hopes	115,920
Safe Horizons	17,500
Self Determination Fiscal Intermediaries	253,630
Sensory Systems Clinic	982
Touchstone -	
Psychosocial Rehabilitation	396,462
Rural Clubhouse	391,942
Tri-Hospital Ambulance	7,520
Visiting Nurses Association -	
Alzheimers Program	105,530
Nor-Serv Group, Incorporated	125,465
MSU Extension-Building Strong Families	32,750
EOC - Knowledge Involvement	19,412
Out of County Services	27,714
Other	269
	<hr/>
	\$ 6,453,315

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**DETAILED STATEMENT OF RESIDENTIAL HOMES EXPENDITURES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

**Group Homes:**

Blue Water Developmental Housing, Inc. -	
Children's Crisis Home (Jones Place)	\$ 299,853
Strawberry Lane Home - Blue Water House	335,865
Spring born	274,488
Stonybrook	344,715
Semi-Independent - Tenth Street	248,844
Eunice Hayes Home	355,041
Maple Street	380,755
Oakleaf	396,929
Thornhill	351,858
I.M.P.A.C.T. -	
Crawford	320,870
Meisner	311,688
Simpson	378,123
Vine	365,312
Frith Road	296,382
Allen Road	302,187
Range Road	409,756
Michigan Road Home	359,106
Innovative Housing Development Corporation -	
Lincoln	310,433
Roehl	303,959
Oak Street	294,754
Progression	291,713
Stone Creek	379,795
Abbottsford	378,129
Gibbons	285,631
Scott	281,443
Ponderosa	395,735
Mayfield	372,424
Ravenswood	318,353

9,344,141

**Foster Homes**

503,382

Total Residential Homes Expenditures

\$ 9,847,523

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**PIHP**

**COMBINING SCHEDULE OF ASSETS, LIABILITIES AND FUND BALANCE  
SEPTEMBER 30, 2004**

	<u>Operating</u>	<u>ISF</u>	<u>Totals</u>
<b>ASSETS</b>			
Cash and cash equivalents	\$ 1,651,187	\$ -	\$ 1,651,187
Due from other funds	613,694	-	613,694
Due from other governmental units -			
State	316,699	-	316,699
Local	1,115,198	-	1,115,198
Restricted Cash -			
Accrued vacation and sick	221,912	-	221,912
Risk corridor financing	<u>-</u>	<u>4,003,037</u>	<u>4,003,037</u>
Total Assets	<u><u>\$ 3,918,690</u></u>	<u><u>\$ 4,003,037</u></u>	<u><u>\$ 7,921,727</u></u>

**LIABILITIES AND FUND EQUITY**

**Liabilities:**

    Payables -

        Accounts

\$ 95,722      \$ -      \$ 95,722

        Accrued payroll and payroll taxes

83,186      -      83,186

Due to other governmental units -

    State

342,954      -      342,954

    Local

77,764      -      77,764

Due to other funds

86,030      -      86,030

Deferred Revenue

3,011,122      -      3,011,122

        Total Liabilities

3,696,778      -      3,696,778

**Fund Equity:**

    Reserved -

        Risk Corridor Financing

-      4,003,037      4,003,037

        Accrued vacation and sick

221,912      -      221,912

        Total Fund Equity

221,912      4,003,037      4,224,949

        Total Liabilities and Fund Equity

\$ 3,918,690      \$ 4,003,037      \$ 7,921,727

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**PIHP**

**COMBINING SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	<u>General Operating</u>	<u>ISF</u>	<u>Total</u>
<b>Revenues:</b>			
Intergovernmental -			
Federal/State	\$ 52,521,022	\$ 81,734	\$ 52,602,756
Local	1,233,901	-	1,233,901
Interest and rents	-	47,594	47,594
	<u>53,754,923</u>	<u>129,328</u>	<u>53,884,251</u>
<b>Expenditures:</b>			
Administration	2,649,943	-	2,649,943
Behavior Health Resources	100,629	-	100,629
Access	945,117	-	945,117
Substance Abuse	412,361	-	412,361
Allocation to Local Boards	49,970,185	-	49,970,185
	<u>54,078,235</u>	<u>-</u>	<u>54,078,235</u>
 Excess of revenues over (under) expenditures	 ( 323,312)	 129,328	 ( 193,984)
<b>Other Financing Sources:</b>			
Operating transfers in	<u>343,073</u>	<u>-</u>	<u>343,073</u>
 Excess of revenues and other sources over expenditures and other uses	 19,761	 129,328	 149,089
 Fund Balance at beginning of fiscal year	 48,789	 3,873,709	 3,922,498
 Transfer of fund balance	 <u>153,362</u>	 <u>-</u>	 <u>153,362</u>
 Fund Balance at end of fiscal year	 <u><u>\$ 221,912</u></u>	 <u><u>\$ 4,003,037</u></u>	 <u><u>\$ 4,224,949</u></u>



**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**  
**PIHP**  
**DETAILED SCHEDULE OF REVENUES**  
**FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2004**

	<u>Operating</u>	<u>ISF</u>	<u>Total</u>
<b>Intergovernmental:</b>			
State			
Medicaid	\$ 52,521,022	\$ 81,734	\$ 52,602,756
Local -			
Other County Reimbursement	137,993	-	137,993
Drawdown Match	<u>1,095,908</u>	<u>-</u>	<u>1,095,908</u>
	1,233,901	-	1,233,901
<b>Interest and Rents:</b>			
Interest	<u>-</u>	<u>47,594</u>	<u>47,594</u>
 Total Revenues	 <u><u>\$ 53,754,923</u></u>	 <u><u>\$ 129,328</u></u>	 <u><u>\$ 53,884,251</u></u>

**ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY**

**TRANSPORTATION EXPENSES  
FOR THE YEAR ENDED SEPTEMBER 30, 2004**

	<u>Operations</u>	<u>Maintenance</u>	<u>General Admin.</u>	<u>Total System</u>
Labor -				
Operator's salaries and wages	\$ 55,225	\$ -	\$ -	\$ 55,225
Other salaries and wages	24,749	-	41,450	66,199
Fringe benefits	17,762	-	21,823	39,585
Services -				
Audit costs	586	-	-	586
Other services	2,574	-	-	2,574
Materials and Supplies Consumed -				
Fuel and lubricants	14,949	-	-	14,949
Tires and tubes	-	-	-	-
Other materials and supplies	-	10,996	2,126	13,122
Utilities	4,594	-	1,366	5,960
Casualty and Liability Costs -				
Premiums for Public Liability	-	-	-	-
Other Insurance	15,680	-	-	15,680
Purchased Transportation Costs	376,094	-	-	376,094
Miscellaneous Expenses -				
Travel and Meetings	-	-	-	-
Other miscellaneous expenses	2,520	-	37,481	40,001
Leases & Rentals	58,046	-	4,200	62,246
Depreciation	6,755	-	-	6,755
	<u>579,534</u>	<u>10,996</u>	<u>108,446</u>	<u>698,976</u>
Less: Ineligible expenses				
Other Ineligible Expenses	<u>( 2,491)</u>	<u>-</u>	<u>-</u>	<u>( 2,491)</u>
Total Operating Expenses	<u>\$ 577,043</u>	<u>\$ 10,996</u>	<u>\$ 108,446</u>	<u>\$ 696,485</u>

ST. CLAIR COUNTY COMMUNITY MENTAL HEALTH AUTHORITY

MILEAGE DATA (UNAUDITED)  
FOR THE YEAR ENDED SEPTEMBER 30, 2004

	<u>Total Mileage</u>
Demand-Response	
1st. Quarter	30,882
2nd. Quarter	29,749
3rd. Quarter	33,144
4th. Quarter	<u>38,717</u>
	<u>132,492</u>



**REPORT ON INTERNAL CONTROL OVER FINANCIAL  
REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF  
FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS***

To the St. Clair County Community  
Mental Health Authority  
Port Huron, Michigan

We have audited the financial statements of the St. Clair County Community Mental Health Authority as of and for the year ended September 30, 2004, and have issued our report thereon, dated February 8, 2005. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

**Internal Control over Financial Reporting**

In planning and performing our audit, we considered the St. Clair County Community Mental Health Authority's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control over financial reporting that might be material weaknesses. A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. We noted no matters involving the internal control over financial reporting and its operation that we consider to be material weaknesses.

We noted certain matters that we reported to management of the St. Clair County Community Mental Health Authority in a separate letter dated February 8, 2005.

**Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the St. Clair County Community Mental Health Authority's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

This report is intended solely for the information and use of management and the Board of Directors of the St. Clair County Community Mental Health Authority, and the federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

*Stewart, Beauvais & Whipple*

Certified Public Accountants

February 8, 2005

To the St. Clair County Community  
Mental Health Authority  
Port Huron, Michigan

As you know, we have recently completed our audit of the basic financial statements of St. Clair County Community Mental Health Authority as of and for the year ended September 30, 2004. As noted in the **Report on Internal Control Over Financial Reporting And On Compliance And Other Matters**, dated February 8, 2005, we are happy to report that there were no significant compliance issues or material weaknesses that we are required to report under *Government Auditing Standards*.

However, as we discussed, this is the first year that the Authority was audited under the new auditing Statement No. 99, Fraud in the Financial Statements, which became effective for audits ending on or after December 31, 2003. This new standard puts renewed emphasis on Internal Controls, fraud and abuse in the workplace. It also requires that we "brainstorm" on how someone could commit fraud and design tests with this in mind. The new standards also require better communications of these items, where as in many times in the past they were verbally communicated during the exit conference. With this in mind we offer the following comments/suggestions that are designed to enhance the controls that the Authority already has in place.

**Management may want to investigate methods to increase FDIC insurance and/or security on deposits.**

At the current time the Authority has in excess of 13 million dollars maintained with one financial institution, and therefore only approximately \$200,000 of Federal Depository Insurance Corporation (FDIC) insurance if something were to happen to the financial institution. We realize it is impractical, and we do not suggest that the Authority attempt to maintain deposits in enough financial institutions to be fully covered by FDIC insurance.

However, the Authority may want to spread the risk by utilizing three or four different financial institutions. Also, it is our understanding that the Authority may be able to obtain additional security by investing in accounts established as a "trust" since the owners of the trust may own the securities purchased by the trust, thus not being available to the general creditors of the financial institution if something were to happen. However, it is our understanding that at this time these accounts are earning interest less than a normal savings account.

**The Board may want to consider revising its Investment Policy.**

The investment resolution 2000-02, adopted by the Board specifies that it is the Board policy to invest in only investments that are authorized by Act 20 of 1943, as amended, and that this policy applies to all funds. At the time the investment policy was adopted, the Authority did not have a retirees' health fund, utilized to fund retirees' health insurance for certain management employees. Since that time a retirees' health fund has been established, which under State rules and regulations, are allowed to invest in various types of investment vehicles that are not permitted by Public Act 20. As a result, management invested the health insurance fund investments in a Bond Index Fund and Stock Index Fund during the year.

However, since the Investment Policy adopted indicates that it applies to all funds, the Board may want to consider revising the policy or changing the types of investment it maintains.

**Periodically the receipts log book should be agreed to the cash receipts/deposits.**

At the current time a log is prepared of all cash receipts in the front office. However, it is our understanding that this log is not periodically agreed to the amount deposited in the bank. We recommend that periodically throughout the year, this log be agreed to the bank deposit.

**The controls over electronic fund transactions (EFT) could be enhanced.**

At the current time it is our understanding that the Board does not have a formal policy regarding electronic transactions, i.e. wire transfers, and that electronic transactions do not require formal approval. In addition, they are made by the same individual that is responsible for the general ledger.

Public Act 738 of 2002 requires that each governing body adopt a policy for Automated Clearing House (ACH) arrangements and Electronic Transaction of Funds. The policy should contain procedures and responsibilities for payments, approval, accounting, reporting and general overseeing of compliance issues.

We recommend that a resolution for such a policy be adopted. The Board may want to consider having someone other than the individual responsible for the general ledger, make any electronic transfer.

**All journal entries should be reviewed and approved by a second individual.**

At the current time journal entries do not require a second persons review and approval. To increase controls we suggest that all journal entries be reviewed and approved by a second person.

**Controls over the accounts payable process could be enhanced.**

Although we believe that the Board has good controls over the accounts payable process, it is very important that certain check and balance procedures be performed on an on going basis. Since the Board utilizes signature plates, with the two required signatures, and they are available to the individual processing accounts payable, it is imperative that the individual designated to review the checks and supporting documentation account for each and every check number and that they be compared to the listing of approved bills by the Board. It is our understanding this currently happens.

However, at the current time that individual also has access to the blank check stock and signature plates. We recommend that the individual accounting for the check sequence and reviewing the documentation not have access to the signature plates.

This report is intended solely for the information and use of management and the Authority Board, federal awarding agencies and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties.

These conditions were considered in determining the nature, timing, and extent of the audit tests applied in our audit of the Authority's September 30, 2004, financial statements. We have not considered internal controls since the date of our report. It is important to remember that management is responsible for the design and implementation of programs and controls to prevent and detect fraud and abuses.

We wish to express our appreciation for the courtesy and cooperation extended to us during our examination. We are available to discuss these conditions with you and to provide assistance in the implementation of improvements.

Sincerely,

*Stewart, Beavens & Whipple*

February 8, 2005